

## Message Text

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ACTION EB-11

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CIEP-02 CEA-02 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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TO SECSTATE WASHDC 7803

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E.O. 11652: N/A

TAGS: ENRG, RP

SUBJ: PETROLEUM SUPPLY PROBLEMS IN PHILIPPINES

REF: MANILA 9791

1. SENIOR U.S. OIL EXECUTIVES HAVE INFORMED EMBASSY OF PROBABLE SHORTAGES OF PETROLEUM PRODUCTS ESPECIALLY GASOLINE AS RESULT OF MOUNTING CRUDE PRICES, LIMITED AVAILABILITY OF CRUDE, TECHNICAL PROBLEMS IN REFINERY OPERATIONS AND CHANGES IN CRUDE SOURCING. MOBIL MANAGER WALES HAS INFORMED NEDA DIRGEN SICAT AND OIL INDUSTRY COMMISSION CHAIRMAN MATHAY THAT MOBIL NOW FORCED TO INTRODUCE ALLOCATION OF SUPPLIES DUE CUTBACK IN FILOIL SALES OF PRODUCT AND SIDE EFFECTS FOREGOING PROBLEMS. BEST ESTIMATE IS THAT SHORTFALL WILL EQUAL INCREASE IN DEMAND, NOW RUNNING OVER 15 PERCENT ABOVE LAST YEAR. OTHER COMPANIES ALSO EXPECT SUPPLIES TO LAG BEHIND DEMAND, BUT ARE BELIEVED NOT YET TO HAVE INFORMED GOP OF THEIR PROBABLY SHORTFALLS.

2. TECHNICAL PROBLEMS AND CHANGES IN REFINERY OPERATIONS AT FILOIL, CALTEX AND SHELL REFINERIES HAVE  
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CAUSED SOME DISTRIBUTION PROBLEMS AND LIGHT END

PRODUCT SHORTAGES. EFFECT MAY BE TEMPORARY, BUT SHELL SWITCH TO ARABIAN CRUDE WILL PERMANENTLY REDUCE ITS GASOLINE OUTPUT AND FILOIL'S CRUDE PROCUREMENT AS WELL AS MARKET PROBLEMS CONTINUE UNABATED.

3. OIL COMPANIES CONTINUE FACE SQUEEZE BETWEEN MOUNTING EXTERNAL COSTS (CRUDE AND SHIPPING) AND FROZEN DOMESTIC SELLING PRICE PENDING OIC APPROVAL OF PETITIONS FOR PRICE INCREASE. AS NOTED REFTEL, END OF SEPTEMBER IS EARLIEST COMPANIES CAN HOPE FOR RELIEF, AND THERE IS STRONG LIKELIHOOD OF FURTHER DELAY-- PRESS REPORTS SUGGEST NOVEMBER IS MORE LIKELY-- WHEN COMPANIES EXPECT ONLY PARTIAL RELIEF.

4. COMMENT: FOR SOME TIME COMPANIES HAVE TOYED WITH IDEA OF LIMITING THEIR CRUDE SUPPLIES TO PHILIPPINES AS DISPARITY HAS MOUNTED BETWEEN THE RATES OF RETURN ON OPERATIONS IN PHILS AND MORE PROFITABLE OPERATIONS ELSEWHERE. IT NOW APPEARS THAT COMPANIES INTEND TO DO THIS BY A STATED INABILITY TO MEET UNEXPECTEDLY LARGE INCREASE IN 1973 DEMAND (ESPECIALLY AFTER LOW 1972 CONSUMPTION OWING TO DISRUPTION OF LUZON FLOODS AND AFTERMATH). SEVERAL COMPANIES CLAIM THAT THEY IN FACT UNDERESTIMATED EXTENT OF INCREASED 1973 REQUIREMENTS. AT SAME TIME THEY HAVE MADE CLEAR THAT THEY DO NOT INTEND TO BUY ADDITIONAL CRUDE AT CURRENT HIGH WORLD PRICES, THUS CONSIDERABLY INCREASING THEIR COSTS AT TIME WHEN SELLING PRICES FOR PRODUCTS HAVE FAILED TO COVER COST INCREASES ALREADY IN EFFECT. IF COMPANIES PERSIST IN PLANS, RATIONING OF GASOLINE AND POSSIBLY OTHER PRODUCTS WOULD BE INEVITABLE. WHEN THIS PROSPECT SINKS HOME WITH GOP WE CAN EXPECT STRONG REACTION AND PRESSURE ON OIL COMPANIES TO INCREASE SUPPLIES. THIS WILL RAISE ANTE IN EXPECTED INFORMAL BARGAINING BETWEEN GOP AND COMPANIES ON PRICES, SUPPLIES AND CRUDE OIL SUPPLY FOR FILOIL (REFTEL).  
SULLIVAN

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